

WSDOT Market Analysis

December, 2007

This market analysis is based on a review of published information including the following sources: Asphalt Weekly Monitor (AWM); Associated General Contractors (AGC); The Associated Press (AP) Engineering News Record (ENR);

- **Asphalt** prices are holding steady for the moment, but are expected to increase next quarter following recent crude oil price increases.

“Pacific Northwest markets were mostly unchanged this week while many California suppliers reported another round of sharp price increases for asphalt liquid. Demand was sparse in some areas and seasonally limited in others. In California, several asphalt suppliers sharply raised prices in the northern part of the State this week. Southern California prices were assessed higher as well. Some asphalt-producing refineries were either down for maintenance or running at reduced rates given current asphalt economics and limited demand for product. Meanwhile, asphalt was still being railed into the region from Rocky Mountain sources at competitive prices.” AWM, Week of November 26-30, 2007.

- **Concrete** prices rose slightly in November for the first time since July. Concrete prices are expected to remain fairly steady throughout 2008.

“This month’s average 0.7% price increase for ready-mix concrete was the first significant jump since last July. The year-end rebound helped to keep prices about 5% above a year ago, which was 1% lower than 2006’s annual escalation rate. The year-to-year escalation rate of the Bureau of Labor Statistics’ producer price index for ready-mix concrete has posted a sharp slowdown. In July, the PPI for ready-mix concrete was up 3.6% from a year ago. This was down from the 10.1% rate posted last December.” ENR, “Construction Economics,” December 3, 2007

- **Fuel** price increases may cause another round of construction cost escalation, especially for road work. Crude oil recently topped \$100 per barrel and although prices have decreased slightly, crude is projected to cost upwards of \$70 per barrel throughout 2008.

“Violence in Nigeria helped give crude the final push over \$100. Bands of armed men invaded Port Harcourt, the center of Nigeria’s oil industry Tuesday, attacking two police stations and raiding the lobby of a major hotel. Word that several Mexican oil export ports

were closed due to rough weather added to the gains, as did a report that OPEC may not be able to meet its share of global oil demand by 2024.” AP, “Oil futures rise to \$100 a barrel,” January 2, 2008.

“One contributor to rising construction costs is diesel fuel. Tonight the Energy Information Administration reported that the national average retail price of on-highway diesel was \$3.33 per gallon, down 5 cents from last Monday but up 86 cents (35%) from a year ago. In its latest Short-Term Energy Outlook, released on Tuesday, the agency wrote, “Both motor gasoline and diesel prices are projected to average over \$3 per gallon in 2008 and 2009, with monthly average gasoline prices peaking near \$3.50 per gallon this spring.” AGC, “DataDIGest,” January 14, 2007.

Lumber and plywood prices, which have rapidly declined due to the housing market, will remain low until homebuilding rebounds.

“Homebuilding seems mired in a deep trough that will maintain downward pressure on prices for lumber and plywood and gypsum products, and will ease demand for other materials used in both residential and nonresidential construction.” AGC, “Construction Inflation Alert,” October 2007.

- **Steel** prices rose slightly in 2007, but are expected to experience higher increases throughout 2008.

“Prices for light structural steel shapes rose 0.2% this month, according to ENR’s 20-city average prices for channel, wide-flange and I-beams. This compares to a 0.8% price decrease for this group of products during the closing month of 2006. Together, the divergent trends helped to boost prices 2.5% above a year ago, compared to a 0.1% year-to-year decline recorded just two months ago. Prices for reinforcing bar ended the year with a 2.4% annual gain, while prices for 12-gauge steel plate increased 9%.” ENR, “Construction Economics,” December 24, 2007.

- **Highway Materials & Construction** price increases slowed down in 2007, but were still far above other types of construction. Prices for highway construction and materials are expected to increase more rapidly in 2008 due to the price of fuel, steel and asphalt.

“Among construction segments, highway and street construction had the highest increases since October 2006 and December 2003: 7.8% and 44%, respectively. Those numbers were driven by huge increases for diesel fuel, 26% and 154%; steel mill products, 4.5% and

56%; asphalt paving mixtures and blocks, 1.6% and 49%; and concrete products, 3.3% and 31.5%.” AGC, The DataDIGest, November 19, 2007

- **Labor** prices are rising in the 5% annual range after recent negotiations in the Puget Sound area. Puget Sound area wage increases are slightly higher than nationwide averages.

“ENR is forecasting that the labor component of its indexes will hold close to the increases already negotiated for next year. Multiyear collective bargaining agreements reported by the Construction Labor Research Council, Washington, D.C., call for another 4.3% increase in 2008.” ENR, “Fourth Quarter Cost Report, Inflation Bows to Sub-Prime Crisis,” December 17, 2007 – Tim Grogan.